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Message Text

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 SP-02 L-01 EB-03 INR-05 SSO-00

INRE-00 /032 W
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FM AMEMBASSY BRASILIA
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C O N F I D E N T I A L BRASILIA 10929

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LIMDIS

FOR ASSISTANT SECRETARY ROGERS/ARA

E.O. 11652: GDS
TAGS: ETRD, BR
SUBJECT: COUNTERVAILING DUTIES

REF: BRASILIA 10928

1. YOU WILL SEE FROM REFTEL THAT SIMONSEN'S BASIC POINT IS THAT THERE IS NO JUSTIFICATION FOR ANY INCREASE BY TREASURY IN COUNTERVAILING DUTIES ON SENSITIVE ITEMS TO REFLECT NEW BENEFITS PROVIDED IN THE RECENT EXPORT-INCENTIVE MEASURES BECAUSE THE BENEFITS HAVE NOT YET BEEN GRANTED, AND IT IS PROBABLE THAT THEY WILL NOT BE GRANTED ANYWAY TO THE SENSITIVE EXPORTS.

2. IT SEEMS TO ME THAT TREASURY CAN EITHER (A) ACCEPT SIMONSEN'S POSITION AND STAY ITS HAND WITH RESPECT TO ADDITIONAL ACTION AGAINST HANDBAGS AND SHOES, WAITING TO SEE WHETHER EXPORTERS OF SENSITIVE ITEMS RECEIVE ANY ACTUAL BENEFITS, AS OPPOSED TO THE THEORETICAL BENEFITS SET OUT IN THE NEW MEASURES; OR (B) TAKE A HARD-LINE APPROACH THAT WOULD BE BASED ON THE FACT THAT SIMONSEN DID NOT GIVE IRON-CLAD ASSURANCES AGAINST
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EVENTUAL INCLUSION OF THE SENSITIVE ITEMS IN THE NEW

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REGIME OF BENEFITS AND THAT WOULD PRODUCE COUNTERVAILING DUTIES ON HANDBAGAS HIGHER THAN THE PRESENT SYSTEM WOULD WARRANT AND EITHER HIGHER COUNTERVAILING DUTIES ON SHOES OR SUSPENSION OF LIQUIDATION OF SHOES PENDING A DECISION BY THE GOB ON WHETHER OR NOT TO INCLUDE SHOES IN THE NEW REGIME. (PRESUMABLY THE LAST MEASURE WOULD BE INTENDED TO PRESSURE THE GOB TO GIVE UP ANY EVENTUAL IDEAS OF INCLUDING SHOES OR, MORE BROADLY, TO EXCLUDE EXPORTS TO THE US FROM THE NEW BENEFITS.)

3. HAVING VERY MUCH IN MIND OUR STANDARD PRACTICE OF LEVYING COUNTERVAILING DUTIES AGAINST ACTUAL, REALIZED BENEFITS RATHER THAN AGAINST BENEFITS THEORETICALLY AVAILABLE, I SEE THE CHOICE BEFORE TREASURY AS A POLITICAL ONE, AS OPPOSED TO A LEGAL ONE, THAT IS, TREASURY HAS FLEXIBILITY AS BETWEEN THE OPTIONS.

4. I AM SURE THAT YOU, THE SECRETARY AND OTHER OFFICERS OF THE DEPARTMENT ARE UNDER NO ILLUSIONS ABOUT THE COST TO OUR RELATIONS WITH BRAZIL OF A DECISION TO FOLLOW THE SECOND COURSE. THERE WILL CERTAINLY BE A NEGATIVE REACTION TO WHAT APPEARS TO BE THE INEVITABLE IM-POSITION OF COUNTERVAILING DUTIES AGAINST HANDBAGS. TO RAISE THE LEVEL ABOVE THE EXPECTED ONE AND TO MOVE AGAINST SHOES ALSO WILL MAGNIFY THAT REACTION SIGNIFICANTLY. BECAUSE OF THE AT LEAST PLAUSIBLE BRAZILIAN POSITION ON THE CURRENT ISSUE ASSTATED BY SIMONSEN AND BECAUSE OF THE SERIOUS GOB BALANCE OF PAYMENTS PROBLEM, AND ITS PSYCHO-LOGICAL AND POLITICAL EFFECTS, A DECISION TO BRUSH ASIDE SIMONSEN'S EXPLANATION WILL BE UNAMIOUSLY RECIEVED HERE AS PUNITIVE, IF NOT RUTHLESS, AND AS MAKING A MOCKERY OF THE SEPTEMBER 1 PROGRAM AS REITERATED BY THE SECRETARY AT CIEC. TO MENTION ONLY ONE ELEMENT OF THE PROGRAM, OUR EFFORTS TO BUILD UP GSP WILL BE DESTROYED.

5. IN VARIOUS COMMUNICATIONS I HAVE TRIED TO EMPHASIZE THAT IT IS NOT KOREA, OR ZIONISM, OR ANGOLA OR DIRECT DISTANCE DIALING THAT AFFECT OUR RELATIONS IN A LASTING OR EVEN, IN RELATIVE TERMS, IN A SIGNIFICANT WAY. IT IS TRADE ISSUES; IT IS THE QUESTION OF THE ACCESS OF CONFIDENTIAL

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BRAZILIAN EXPORTS TO THE US MARKET. THE CHOICE THAT I SEE LYING BEFORE TREASURY AND US IS JUST SUCH AN ISSUE. I UNDERSTAND CLEARLY THE BASIC INEXORABILITY OF THE OPERATIONS OF OUR COUNTERVAILING DUTY STATUTES AND I KNOW THAT FURTHER TROUBLE LIES AHEAD AS THE NEW GOB BENEFITS MAY PRODUCE COMPLAINTS ABOUT OTHER BRAZILIAN EXPORTS. BUT IT APPEARS TO ME THAT IN THE PRESENT CASE WE DO HAVE SOME LEEWAY.

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6. I URGE YOU TO EXHAUST EVERY MEANS OF ASSURING THAT THAT LEEWAY IS USED TO AVOID ONE MORE SERIOUS REVERSE IN OUR EFFORTS TO MAINTAIN AN EFFECTIVE RELATIONSHIP WITH BRAZIL.
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